



Committed to the future of rural communities.

Arizona Guaranteed Loan Program Lender Handbook



Revised: November 2008

<http://www.rurdev.usda.gov/az/>

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>



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11/04/2008

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Exhibits

ATTENTION

Throughout the handbook you will notice: **EXTRA: Administrative Notice** located in many sections.

This is alerting you to an Administrative Notice (AN) published on this topic for further guidance and clarification. You can access these Administrative Notices from the Rural Development website:

http://www.rurdev.usda.gov/regs/regs_toc.html#1980

- Place cursor on the AN you are interested in, and click

Advantages & Benefits of GRH Financing



- **No down payment: True 100% product**
- **No expensive monthly mortgage insurance: Clients can afford more!**
- **No cash reserves are required**
- **No minimum credit score: Excellent for non-traditional credit histories**
- **Expanded qualifying ratios: 29/41%**
Exceptions may be made to accommodate qualifying clients
- **No asset limits: Clients may keep liquid cash savings and other investments**
- **NOT just for first time buyers: Anyone may qualify**
- **No purchase price limits: Clients may purchase home that meets their needs**
- **Loan up to 102% of the appraised value. The 2% Guaranteed Fee may be added to loan amount regardless of appraised value. (100.5% on refinances of Rural Development direct or guaranteed loans with no cash out)**
- **No limitation on source of closing costs: 100% gifted closing cost or down payment assistance is allowed. Funds from AmeriDream, Partners In Charity, or similar housing assistance from community based organizations may be used. Soft second mortgages are allowed for closing costs even if the total debt exceeds the appraised value of the property**
- **Repairs may be financed up to 100% of the appraised or “as improved” value.**
- **No limit on seller concessions to pay for closing costs and/or repairs. A Fannie/Freddie guideline is the 6% concession limit, so check with your secondary market.**

- **Competitive 30 year fixed interest rates**
- **Premium pricing and service release premium available**
- **No Rural Development prior approval of appraisers or builders**
- **Any lender may participate with formal Rural Development approval**
- **Prompt review of Guarantee Files: 24 - 48 hour turnaround time**
- **Lenders may charge *normal and customary* fees for their services**
- **Lenders may use their standard forms (Only 1 RD form is needed for a typical file: RD 1980-21 (New construction will require additional forms))**
- **EXPAND YOUR MORTGAGE CUSTOMER BASE! Arizona has 15 counties and most of the state is eligible for the guaranteed program. The Ineligible areas in Arizona are: **Flagstaff, Bullhead City, Lake Havasu City, Prescott, Phoenix, Tucson, Yuma, and Sierra Vista.** (Note: Kingman, Prescott Valley, Buckeye, and Marana may be placed on the ineligible list soon. Eligibility of the applicant will be determined by the date on the signed copy of form 1003.)**
- **GRH Loans are accepted in any Ginnie Mae I or II pool. They can be sold as a single loan or as part of a pool to Fannie Mae and Freddie Mac. Nationally, approximately 300 approved lenders are eligible to purchase GRH loans**
- **9 Local Rural Development offices are available for training and outreach assistance**
- **RD's Guarantee provides better loss protection than private mortgage insurance (PMI)! MAXIMUM BENEFITS TO THE LENDER & CLIENT WITH LESS COST!**



COMPLETE RURAL DEVELOPMENT INSTRUCTION 1980-D is available online:
http://www.rurdev.usda.gov/regs/regs_toc.html#1980

Marketing Strategies

100% Guaranteed financing can help you grow your business by assisting many more clients. As a lender you are guiding individuals and families through the largest purchase of their lives. Pay special attention to the next few pages to see how you can help your clients reach their homeownership, wealth building, debt reduction, and retirement planning goals with Guaranteed financing. If you never thought a mortgage could do so much.....keep reading.

SERVE THE MAJORITY OF YOUR CLIENTS WITH 100% GUARANTEED FINANCING!

- **GENEROUS INCOME LIMITS:**
“ADJUSTED” household income refers to the GROSS income applicant(s) earn less allowable deductions. THE ADJUSTED INCOME LIMITS will change DEPENDING UPON WHICH COUNTY THE HOME IS LOCATED.
- **NO MAXIMUM PURCHASE PRICE LIMITS:**
Arizona Rural Development has financed properties as high as \$300,000. If the client(s) qualify with RD’s flexible and expanded payment terms, then Rural Development can help. Educate your real estate partners to advertise 100% Guaranteed financing to sell more updated and new homes today.
- Use websites such as www.realtor.com to identify properties that could be financed with the GRH program. Market YOUR services directly to the listing agent or seller.
- Encourage Real Estate Professionals to contact a local field office for a Guaranteed Rural Housing suitability Inspection for Existing Dwellings as a tool to pre-qualify their listings. The inspection is very basic and is only performed for Rural Development standards. Clients wishing to have a whole home inspection should pay for a qualified inspector.

Let's Compare Financing Options.....

SEEING IS BELIEVING!

100% Guaranteed Financing is FANTASTIC!

Payments based on: \$175,000 purchase price, 7% interest rate, 30 year term

NO PMI LOAN	5% down \$8,750	9% Rate	NO MI	
FLEX 97	3% down \$5250	680-699 FICO	35% MI	
FLEX 97	3% down \$5250	700 + FICO	18% MI	
FHA	3% down \$5250	1.75% UFMIP + 55 bp	MI	\$
95% LTV CONVENTIONAL	5% down \$8750	30% MI		\$121
MCM®/HOME POSSIBLE	3% down \$5250	680 – 699 FICO	18% MI	\$121
80/20	80% 1st 7% 30 YR TERM	20% 2 nd 8.5% 30 YR TERM		\$1201
MCM®/HP	3% down \$5250	700 + FICO	18% MI	\$1196
VA	2.15% GUARANTY FEE	NO MI		\$1189
102% LTV RURAL DEVELOPMENT	NO MI			\$1188
100% LTV RURAL DEVELOPMENT	NO MI			\$1164

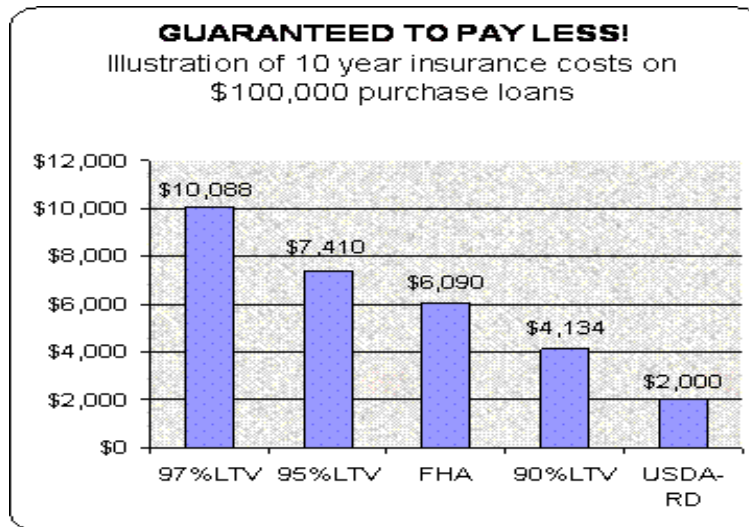
\$175

7

No r.e. t

More GOOD NEWS!

How does the 2% guarantee fee rolled into the loan benefit the client?



Borrowers may keep their nest eggs, savings, and ER funds for debt payoff, wealth building, and other financial needs.

WOW!

What a savings the Guarantee Fee Offers over PMI!

Guarantee Fee vs PMI



\$2,000 guarantee fee

vs

Freddie 100

- 2.08 yrs. PMI = G-fee

vs

\$5,000 Down Conventional

- 2.68 yrs. PMI = G-fee
- 6.72 yrs. PMI = \$5,000 downpayment



Participating GRH Lenders

Any lender licensed in AZ may originate the loans and reserve funds. However, GRH loan packages must be submitted to Rural Development by a participating underwriting lender.

Underwriting lenders must be approved by AZ Rural Development, or by the National Office in Washington, D.C. Your local Rural Development office can supply you with an Approved Lender application package.

Eligible Rural Areas

- **Property must be in an eligible rural area or community. Generally, these are communities of fewer than 10,000 persons except that certain communities between 10,000 and 25,000 population are considered rural based on their distance from urban areas.**
- **To access eligible areas LOG ON:**
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- **Left side under “Property Eligibility”**
- **Under Property Eligibility Click on “Single Family”**
- **Click “Accept”**
- **If you have an address including zip code, enter it and then click on “Get Map” Your address will be mapped to its exact location along with a determination of eligibility. (Note: New subdivisions may not be setup for this service – contact your local field office for assistance if the address eligibility cannot be determined.)**
- **If you do not have an address, Click on “Arizona” on the U.S. map**
- **Click on the county which you are interested**
- **Light yellow areas are eligible, and dark orange areas are ineligible Note: Casa Grande, in Pinal County, is still an eligible area!**



Income Verification

There are two types of income that Rural Development must review:

- Adjusted Household Income
- Repayment Income (Gross Earnings)

Adjusted income limits for each county may be accessed online:

http://www.rurdev.usda.gov/regs/regs_toc.html#1980

- Under “1980 General” click on “Exhibit C – Guaranteed Loan Income Limits”
- Print and keep for future reference
- Reference the “MOD-INC. GUAR. LOAN” line. They are arranged according to the number of household members

What is “adjusted” income?

IT TRANSLATES INTO MORE CLIENTS QUALIFYING TODAY!

Adjusted income is the clients’ GROSS annual income MINUS eligible deductions.

Guaranteed Financing In Action!

- Family of 4, children ages 3 & 9: \$72,000/yr. income
- Want to purchase a \$200,000 home
- Monthly debts: car \$230, car \$300, student loan \$100, visa \$50, mastercard \$20, Best Buy card \$30= \$730

DO THEY QUALIFY?

- \$72,000/yr. is OVER the adjusted income limit (\$69,150)
- 960 2 children x \$480 deduction
- 5,200 Daycare: \$100 week x 52 weeks
- \$65,840 “Adjusted Income”** →

**They
Qualify!!**

Won't the “adjusted” income hurt the client when determining how large a home they can buy or build?

NO! Lenders will use the GROSS income figure (\$72,000 in our example) for ratio and repayment purposes.

ON THE 1980-21 REQUEST FOR A SINGLE FAMILY HOUSING LOAN GUARANTEE:

- List the GROSS income (\$72,000) on line 6
- List the “ADJUSTED” income (\$65,840) on line 7.

Definition of household income: The income of all adults (above age 18) that will be residing in the house. RD Instruction 1980-D pages 39-48 contain more detailed information.

Eligible Deductions:

Common adjustments to the gross income include:

1. \$480 deduction for each child under age 18
2. Verified childcare expenses: receipts from daycare, signed letters from babysitters, grandmothers, etc. stating weekly/monthly payment
3. \$480 deduction for disabled applicants age 18 or older
4. \$480 for a full-time student age 18 or older
5. \$400 deduction for any elderly family as defined by 1980.302(a) page 3
6. A deduction for the care of minors 12 years of age or under, to the extent necessary to enable a member of the family to be gainfully employed
7. A deduction of the amount by which the aggregate of the following expenses of the household exceeds 3% of the gross annual income: Medical expenses for elderly family, and Reasonable attendant care and auxiliary apparatus expenses for disabled household members.

For greater detail please see RD Instruction 1980-D pages 43-44.

If you have questions regarding any expenses that you feel should qualify, please call your local RD office for further assistance.



Repayment Income a.k.a. Gross Earnings

This is a separate calculation from the adjusted annual income. The repayment income will be the clients' **GROSS ANNUAL INCOME**.

Repayment income includes:

- All income that is considered to be stable and dependable.
- Income of the person(s) signing the promissory note.
Lender Note: If you have two people who will reside in the home, but only one of them is on your loan application you will calculate the “adjusted” income using BOTH incomes, but you will only use the gross income of the client on your application for “repayment” income.
- Income that is anticipated to last for at least 24 months.
- Income may be based on projected income when determining base earnings. However, most underwriters use historical information from the previous 24 months to determine projected income from overtime, profit sharing, bonus, tips, commissions, part time work, seasonal employment, unemployment compensation, and self-employment as per RD Instruction 1980.347 page 39.
- Historical income that is higher than the projected income (based on current wages and YTD earnings) must be explained and documented regarding the anticipated decrease in earnings.
- Non-taxable income such as child support or SSI may be grossed up **20% or 25% - Lender's option.**
- Vehicle allowances, provided by an employer for the applicant to acquire transportation, are considered as income for both adjusted and repayment purposes. **Count both the income to pay for the vehicle AND the vehicle debt in the ratios.**
- Pending pay increases supported with written documentation that are scheduled to occur in the near future based on the VOE may be considered for repayment purposes, or they may be viewed as a compensating factor if a ratio waiver is needed.

Income Documentation

LENDER'S MUST SUBMIT:

1. A written "Request for Verification of Employment" (on lender form or the equivalent HUD/FHA/VA or Fannie Mae form) **AND**
2. Two most recent paycheck stubs with YTD figures

OR

1. Most recent 30 day period of paycheck stubs or payroll earnings
2. W-2's for the previous 2 tax years
3. Telephone verification of employment

Please supply portions of divorce decrees pertaining to property settlements, child support, and alimony to support the file.

Self-Employed Income Documentation

EXTRA: Administrative Notice: Repayment Income for Self Employed Clients

Rural Development encourages the use of:

- * Fannie Mae Form 1084: "Cash Flow Analysis" and
- * Fannie Mae Form 1088: "Comparative Income Analysis" to document a trend analysis for the client's business.

The lender may use the Fannie Mae forms or any documentation that provides the same information.

How to treat business debts:

Net Profit + Depletion (item #12 on Schedule C) + Depreciation (item #13 on Schedule c or item #16 on Schedule F) = Repayment Income

Business-related debts treated in this manner will not be included in the debt to income ratios since they were accounted for in the calculation of repayment income.



Eligible Properties & Loan Purposes

- Existing or New Construction Dwellings
 - Townhouses and Condos
 - NEW Manufactured Homes
 - Existing or New Modular Homes
1. Townhouses and condominiums must be eligible for Fannie Mae, Freddie Mac, FHA, or VA financing. A First Right of Refusal in Condo documents and bylaws is **ACCEPTABLE**, as long as there is no discrimination involved in selling the property (i.e. the property is listed on the MLS, therefore anyone may submit an offer). RD offers more flexibility in financing affordable housing opportunities.
 2. New Construction: End Loans and Permanent Financing Only. Lenders must underwrite and obtain the Rural Development Conditional Commitment prior to beginning construction for GRH loans involving a Construction Contract.
 3. What may be financed for new construction?
New site loans, bridge loans, interim financing through construction process, 2% Guarantee fee, closing costs.
EXISTING PROPERTY SITES WITHOUT HOMES THAT HAVE PERMANENT FINANCING CAN NOT BE ROLLED INTO THE LOAN.
 4. Property repairs and improvements on existing homes **CAN** be financed up to the “As-Improved” value of the property. Repairs and improvements must be completed before the final Loan Note Guarantee is issued, **UNLESS** the lender escrows 150% of the total estimated cost.

EXAMPLE:

Purchase Price: \$112,000

As-Improved value: \$125,000

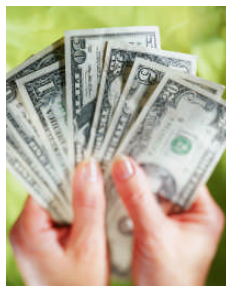
New roof and new front door: \$7,000 150% = \$10,500

Closing costs to roll in: \$2,500

Total Loan = \$125,000 + Guarantee fee 2% = \$127,551.02

BORROWER BRINGS NO MONEY TO THE TABLE!

5. All of the buyers closing costs, including pre-paid expenses may be financed up to 100% of the appraised value PLUS the one time Rural Development guarantee fee of 2%. You may add the 2% into the loan regardless of appraised value! (just like in the above example)



Refinancing

Limited to refinancing existing Rural Development Guaranteed and Direct Loans only.

EXTRA: Administrative Notice: Refinancing Direct to Guaranteed, or Guaranteed to Guaranteed loans.

- Rural Development Direct 502 Loans *may* have subsidy recapture due. The recapture can be deferred (Rural Development maintains a lien and subordinates their mortgage) or it can be included in the payoff.
- If the client is a direct applicant refinancing into a guaranteed loan a 25% reduction of the recapture amount is offered for payoff rather than deferral.
- Loan Term must be 30 years
- Fixed interest rate at or below the current rate
- A 0.50% guarantee fee must be paid to Rural Development
- Adjusted income limits and repayment ratios are the same as for an initial GRH loan.
- No insulation certification; No flood certification; No property inspections required
- CANNOT refinance debts other than existing Rural Development GRH loan, or the Direct 502 Loan

- **Can add or delete borrowers**
- **Property must be owner occupied**
- **Maximum loan amount can not exceed the balance of the loan being refinanced, plus the .50% guarantee fee. Reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance may be included**
- **The LTV can be up to 100.5% (based on the appraised value) for refinances if the 0.50% guarantee fee is included in the loan.**



- **Appraisals less than one year old may be used for GRH refinance transactions if the lender obtains a re-certification of value from the original appraiser. The LTV cannot exceed 100.5% of the property's original appraised value.**
- **A new appraisal is NOT required when refinancing only the unpaid principal on an existing GRH loan with the .50% guarantee fee. However, a new appraisal is required when refinancing a Direct 502 Loan or if interest and closing costs (including pre-paid expenses), are included in the new GRH loan.**
- **No cash back (except for fees and costs paid out of pocket by the borrower, such as credit check and/or appraisal). The applicants may receive any escrow refund from the old loan.**
- **The property may be in an ineligible (non-rural) area because of eligible area delineation changes by RD since the original loan was made.**



Minimum Loan Amount

NONE- Check with your investor.

Maximum Loan Amount

100% of the “As-Built” APPRAISED VALUE, PLUS THE 2% GUARANTEED FEE

NO MAXIMUM PURCHASE LIMIT ON HOME!

Clients may buy the home that best suits their needs!

No predetermined purchase price limits!

***Newly constructed homes (spec) homes that do not offer a 10 yr. Builder’s Warranty OR do not have a building permit OR do not have documentation of the three required construction inspections (framing/footing, rough-in, and final) are limited to 90% LTV based on the appraisal.**

***The total debt against a property can exceed the value if housing assistance for closing costs or down payment is made by a state or local agency and is secured by a “soft second”. Grants by the state or local agencies for closing costs or down payment assistance are acceptable. Check with your investor or secondary marketing department for any restrictions they may impose in regard to the second liens.**

***New GRH loans used for refinancing an existing Rural Development GRH or Direct 502 loan can be up to 100.5% LTV when including closing costs and the .50% guaranteed fee in the loan.**



Roll those costs together for 100% financing!

Calculating the 2% guarantee fee:

To calculate the Maximum Loan Amount & Guarantee Fee:

Purchase Price: \$120,000 Appraised Value: \$122,000 (AV)

Determine the Maximum Loan Amount: $\$122,000 \text{ (AV)} / .98 = \$124,489.80 \text{ MAX}$

If we purchase for \$120,000 + we want to roll in \$2,000 of closing costs we have a total loan amount of \$122,000

To determine the loan amount including the 2% fee: $\$122,000 / .98 = \$124,489.79$

\$2,489.79 (2% Guarantee Fee) We are under the maximum loan amount! **Note: The loan amount must now be rounded to the last whole dollar (\$124,489). Do not round up.**

DO YOUR MAXIMUM LOAN CALCULATION TO DETERMINE WHAT CLOSING COSTS MAY BE ROLLED IN!

It may be easier to work backwards:

Appraised Value: \$125,000

Purchase Price: - \$123,500

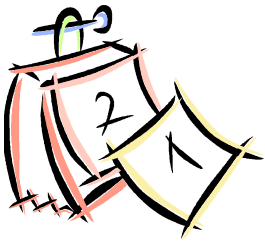
Room for closing costs/repairs: \$1,500

$\$123,500 + \$1,500 \text{ closing costs} = \$125,000 \text{ loan amount} / .98 = \$127,551.02$

\$127,551 is the total loan amount the lender will request from Rural Development on the 1980-21 Request for a Guarantee. This figure includes the 2% fee.

Special Assessments

Special Assessments for work on the site actually commenced or levied prior to the date of the Offer to Purchase shall be paid by the seller, in most cases. If assumed by the buyer, properties with unpaid special assessments for site improvements, street improvements, or connection to municipal sewer and water systems are limited to 100% LTV based on the proposed loan amount AND the unpaid balance of the special assessment as long as the total LTV does not exceed 100% of the appraised value.



Loan Term

- **30 Year amortization only. Shorter or longer terms are not permitted. Since there are no pre-payment penalties, additional principal payments made by the borrower will shorten the loan's amortization period. For construction-permanent loans, the 30-year term begins the date of the loan modification to the permanent terms.**
- **Rural Development does not offer ARM's because the payment the clients qualify for today is the payment that RD wants them to be able to afford 2,3, or 7 years from now.**



Interest Rate

- **The maximum interest rate charged on GRH loans may not be more than the current Fannie Mae rate (which is the Fannie Mae 90 day delivery, plus 60 basis points) OR the lender's published/advertised rate for VA first mortgage loans with no discount points, whichever is higher.**
- **Most investors provide a daily rate schedule. GRH loan applications may be submitted to Rural Development with floating or locked interest rates. Conditional Commitments issued by Rural Development on applications with floating rates will always be at the lesser of the lender's proposed rate or the current Fannie Mae rate. The interest rate, when locked by the applicant and lender must be at an eligible rate of interest as defined above. If a lender locks an eligible interest rate that is higher than the rate shown on their Conditional Commitment, a revised Conditional Commitment must be obtained from RD approving the higher rate.**
- **The Fannie Mae web site may be reached via <http://www.efanniemae.com/syndicated/documents/mbs/apeprices/archives/cur30.html>**

[Return to Historical
Required Net Yields](#)

MANDATORY DELIVERY COMMITMENT —
30-YEAR FIXED RATE A / A

03/01/2007	08:15	06.05151	06.05773	06.06866	06.08826
03/02/2007	08:15	06.05532	06.06136	06.07216	06.09317
03/05/2007	08:15	06.02833	06.03305	06.04401	06.06607
03/06/2007	08:15	06.07276	06.07731	06.08708	06.10911
03/07/2007	08:15	06.02833	06.03305	06.04484	06.06735
03/08/2007	08:15	06.02833	06.03127	06.04248	06.06494
03/09/2007	08:15	06.00481	06.01203	06.02406	06.03434

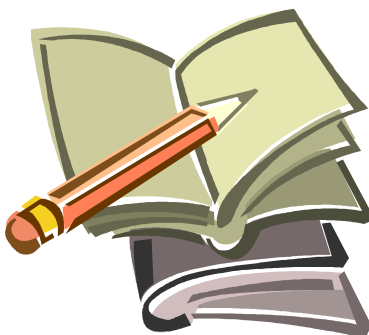
**Example of Fannie Mae Pricing web page: 3/09/2007: 6.03
+.60 b.p.**

Maximum Interest Rate to lock on 3/09/2007: 6.63% *

*** Rounded to the next ¼% if not a ¼% break.**

Real Estate Tax & Hazard Insurance Escrows

Lenders are required to collect and maintain monthly escrows for Real Estate Taxes and Hazard Insurance. If you are unfamiliar with setting up escrows, please allow a 2 month cushion in the account for annual tax and insurance increases.



Credit Criteria

EXTRA: Administrative Notice: Utilizing credit scores for the GRH loan program.

For borrowers with a credit score of 620 or above:

- **A 12-month Verification of Rent (VOR) will not be required.**
- **Underwriters will not be required to document adverse credit history waivers under 1980.345(d)(e), except for those involving a delinquent federal debt or previous agency loan.**
- **The representative credit score is considered to be the middle of three scores, or the lower of two.**
- **Non-Traditional Credit histories, or equivalent documentation, will have to be obtained for those applicants who do not have sufficient credit information to develop credit scores.**

NO CREDIT/NO CREDIT HISTORY IS UNACCEPTABLE!

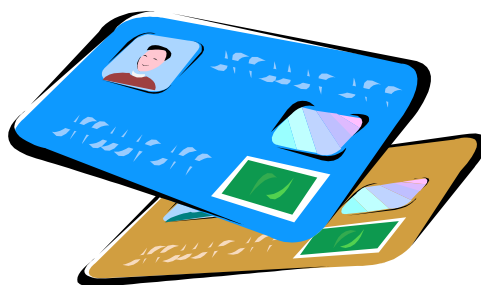
- **Examples of non-traditional credit references includes but is not limited to:**
 - 1. Car payments made directly to a car dealer**
 - 2. Cell phones**
 - 3. Utilities**
 - 4. Car/Renter's insurance**
 - 5. Lay-a-way or installment agreements made in cash**

EXTRA: Administrative Notice: Applicant Credit History Verification



- **Compensating Factors** are allowed to help justify loans for borrowers who have lower credit scores yet need higher ratios and other situations. The lender's underwriter should document waivers of recent adverse credit when they are justified and list strong compensating factors. Examples of adverse credit are listed under *"Waivers to Credit Requirements"*, page 25.
- Applicants with a credit score of 619 or less would statistically have a high likelihood of default on their loan. **HOWEVER**, this does not make a borrower ineligible. The loan can be considered by the underwriters. Lenders should also highlight all positive aspects of the applicant's credit and employment. (See AN-4346)
- Layered risk associated with the application should be avoided without very strong compensating factors. Examples of layered risk may be found on page 24.
- The credit of the primary wage earner will carry the most weight in the underwriter's decision. *Example: A co-applicant that is not employed, or contributing income to the household, could have marginal credit (credit below 620). The GRH loan may still be acceptable based on the strengths of the primary applicant.*
- "Spouse Only" loans are permitted. For compliance purposes, the excluded spouse's income must also be properly verified to determine the eligibility of the household.

Consult with your investor to find the minimum number of trade lines you need to verify.



RURAL DEVELOPMENT UNDERWRITING MATRIX

CREDIT SCORE	DEBT RATIO WAIVER <i>Approved By Rural Development</i>	CREDIT WAIVER <i>Documented by lender's underwriter</i>	PAYMENT SHOCK <i>A definite risk factor!</i>
620 or higher*	<ul style="list-style-type: none"> Ratio waiver is not automatic Score alone may be compensating factor Additional compensating factors will allow more flexibility in higher ratio waivers <p>•See AN 4346 (Mar 28, 2008)</p>	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is significant. 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is significant
Below 620	<ul style="list-style-type: none"> Ratio waiver is not automatic Credit score indicates a risk layer Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a ratio waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a credit waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset payment shock <p><i>Underwriter should show extreme caution in approving this loan</i></p>

- All borrowers must be deemed credit-worthy. Co-applicant's credit history is never ignored completely. Special caution should be taken if any applicant's score is under 620.
- Documentation to support a ratio waiver, credit waiver or payment shock does not need to be provided but should be available from the lender upon request. The underwriter's comments on the waiver should be on the 1008 transmittal summary or similar documentation.
- Sample compensating factors include but are not limited to the following: Good credit scores, conservative attitude towards credit, accumulated savings, good job history, low total debt, low payment shock, etc.
- Payment shock is when the current housing costs in comparison to the proposed housing costs will increase 100% or more. If the borrower has no prior housing cost, payment shock is automatically a risk factor.

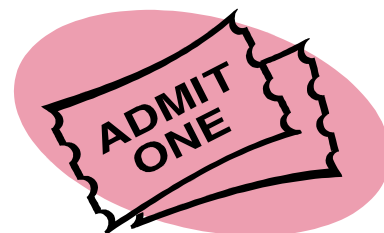
Note: Applicants with Fico Scores of 580 and below – See AN-4346, p. 4

The FICO Score of 580, or below, is a huge risk layer by itself. ANY additional risk should be a strong indicator for the lender to reject the loan until significant improvement in the applicant's credit history has been achieved.



Examples of Risk Layering

1. **Payment Shock over 100% (see page 26)**
2. **Self-employment income with less than 24 months history**
3. **Repayment ratios exceeding the normal maximums of 29/41%**
4. **No cash reserves**
5. **No history of savings**
6. **No previous housing expense**
7. **Unstable income based on recent 24-month employment history**
8. **Low credit scores due to recent late pays**
9. **Purchasing a home with a great deal of deferred maintenance**



Waivers to Credit Requirements

Underwriters may consider mitigating circumstances to establish the borrower's intent for good credit when:

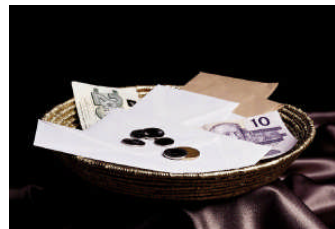
1. **The circumstances were of a temporary nature, AND were beyond the applicant's control, AND have been removed so as not to reoccur.**
2. **The adverse action or delinquency was the result of a justifiable dispute because of defective goods or services.**
3. **Underwriters should not approve Adverse Credit Waivers for applicants with a mid FICO score of 580 or less **Without VERY STRONG** Compensating/Mitigating factors.**

Underwriters must document their credit waiver on Form 1008 or a similar underwriting worksheet. The lower the credit score, the more documentation that will be needed.

Examples of adverse credit that must be waived by the lender's underwriter and documented when the applicant's representative credit score is less than 620:

- **More than one 30 day late payment in the last 12 months**
- **Any account converted to collection in the past 12 months**
- **Any judgments outstanding at any time in past 12 months**
- **Unpaid collection accounts, with no satisfactory arrangement for payments, no matter what their age, as long as they are currently delinquent and/or due and payable.**
- **Any debt written off in the past 36 months**
- **Two or more rent payments paid 30 days late within past 12 months**
- **Foreclosure in the past 36 months**
- **Bankruptcy discharged within the past 36 months**
- **Unpaid tax liens or delinquent government debts (including student loans)**

Refer to the “Repayment Ratio” section below, for a comprehensive list of common compensating factors that can be considered by underwriters to support a credit waiver.



Collection Accounts

EXTRA: Administrative Notice: Treatment of Applicant Collection Accounts

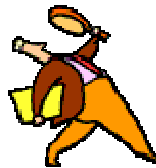
It is a common underwriting practice for many conventional lenders to require the payment of unpaid collection accounts or charge off accounts prior to loan closing. If this practice is consistent with your investor's (Fannie Mae, FHLMC, and GNMA) underwriting guidelines, you should apply it to GRH loans as well.

GRH applications with representative scores over 620 **for each applicant qualify for streamlined credit documentation, which would not require the payment of collection accounts prior to closing unless the lender's underwriter requires it.**

Rural Development does require that all judgments, garnishments or other delinquent credit that has the potential to affect the GRH loan's lien position be paid prior to closing.

The lender's underwriter is responsible for determining what collection accounts, if any, must be paid. **Due to the many variables that can affect Medical billings and collections, the Underwriter should follow the Fannie Mae, FHLMC, and GNMA guidelines and their corporate policy for assessing the affect of unpaid medical debt on the proposed loan. Medical debt is not an automatic "pass". RD expects a reasonable effort to be made to pay all lawful indebtedness. See page 51 for additional information.**

Underwriters must determine that the applicants have an acceptable credit history and document any mitigating circumstances on their underwriting transmittal if they are not requiring the payment of all collection accounts. Collection accounts enrolled in Credit Counseling are acceptable, see "Credit Counseling" for more info.

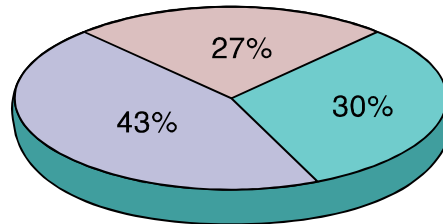


Credit History Verification

EXTRA: Administrative Notice: Applicant Credit History Verification

- **RMCR's, MMCR's and NTMCR's that meet the standards of Fannie Mae, Freddie Mac, HUD, and FHA/VA are acceptable for Rural Development purposes. In the case of MMCR's, tri-merged reports are preferred. At this time, VantageScore is not acceptable for SFHGLP loans.**
- **Non-traditional credit history may be required as discussed above in the "Credit Criteria" section.**
- **Lenders are expected to verify a satisfactory rent payment history (VOR) covering the past 12 months. *(This is optional when both applicants have a credit score of 620 or higher.) Sufficient documentation should be submitted to RD to determine the amount of payment shock associated with the loan.***

Student Loans which will remain in a deferred repayment status for at least 12 months will not be counted in the Total Debt Ratio (TDR). Lenders are responsible for verifying the repayment status and repayment history of an applicant's student loans.



Repayment Ratios

1. **29% Housing Ratio (PITI) and 41% Total Debt Ratio (TDR)**
2. **New thermal standards became effective 06/01/2006 for homes that meet or exceed IECC 2006 code standards, and Manufactured homes that have the Energy Star rating. Applicants purchasing a home that meets these standards can have a PITI Ratio of 31, and a TD Ratio of 43 without a Ratio Waiver.**
3. **There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, housing ratios in the mid to high 30's and total debt ratios in the mid to high 40's are not uncommon. Generally TD debt ratios over 50% will require very strong compensating factors, and may benefit from a 2/1 buy down, a MCC, or both.**

RATIO WAIVERS MUST BE REQUESTED TO RD IN WRITING AND COMPENSATING FACTORS MUST BE IDENTIFIED.

2. **Non-taxable income such as child support and SSI may be grossed up 20% or 25% .**
3. **All debts with MORE THAN 6 MONTHLY INSTALLMENTS REMAINING SHOULD BE CONSIDERED IN THE TDR. (Student Loans in deferment for 12+ months are not counted.) Other debts should be counted if they are reoccurring or otherwise have an impact on repayment ability.**
4. **Underwriters may request an exception to the 29/41 guidelines by properly documenting their compensating factors on the 1008 Underwriting Transmittal Summary. Rural Development must grant the ratio waiver—it is not automatic.**

COMPENSATING FACTORS

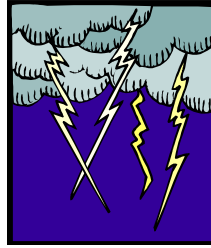
Rural Development is very eager to assist you in your efforts to expand homeownership to individuals who may have survived major credit issues, have very little to no credit, or need further flexibility in qualifying ratios. Compensating factors are a wonderful tool in strengthening applicant eligibility.

Examples of good compensating factors to document on the 1008 Underwriting Summary:

- **Credit Score of 660 or above (no further explanation needed)**
- **Good job stability of 2 or more years at same employer**
- **Lender may document that credit problems were temporary in nature and beyond the borrower's control (death of spouse, divorce, illness, loss of job, etc.)**
- **Low payment shock: Rent or current housing is comparable to new proposed PITI**
- **Borrower has recently had a conservative attitude towards use of credit**
- **Borrower has recent savings or reserves**
- **Household receives compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including spousal income, second job, food stamps, and other similar public benefits**
- **Trailing Spouse Income: Borrower has recently relocated and spouse has yet to secure employment but has a history of earnings and good outlook for securing future employment**
- **Borrower has potential for increased earnings, as indicated by job training or education within the borrower's profession**
- **Credit problems are paid or old, and new credit has been reestablished**
- **Rent, utilities, cell phone, car/car insurance, child care payments can all be tracked for credit history**
- **Borrower/co-borrower attended credit/homebuyer counseling**
- **Borrower purchasing an energy efficient home (e.g. Energy Star Program™)**



It is the underwriter's responsibility to document compensating factors for Credit Waivers. Ratio Waiver requests directed to Rural Development also require strong compensating factors.



Document Payment Shock

EXTRA: Administrative Notice: Approved Lender Underwriting Guidelines

Underwriters should document payment shock on Form 1008 or an equivalent underwriting worksheet.

Example calculation:

Current rent: \$500

New proposed PITI: \$1300

New PITI \$1300 divided by current rent \$500 minus 1 = 1.60 or 160% payment shock

Sellers Concessions

EXTRA: Administrative Notice: Lender Charges and Fees

- No Rural Development limit.
- **Contact your investor or secondary marketing department. Typically, they are limited to 6%. However, some lenders may be limited to 3% depending on the servicing agreement they have with their investor.**



2/1 Buydown Requests

A funded buydown account is designed to improve the applicant's repayment ability. Lenders should be cognizant of educating client(s) as to how to prepare to meet the expected increases in loan payment.

The maximum reduction which may be considered is 2% below the note rate. Reductions in buydown assistance may not result in an increase in the interest rate paid by the borrower of more than 1% per year. Buydown periods must be at least 12 months for each 1% of the buydown.

No additional risk layering should be allowed in cases where payment shock is 100% or more in cases where the applicant did not have prior housing expense.

Buydowns in action

Bob's Gross Salary: \$40,000

Bob's Debts: \$300 car payment, \$100 student loan, \$20 visa = \$420 monthly

Rural Development offers expanded qualifying ratios of 29/41%. Based on Bob's gross income he can afford a home around \$120,000. But Bob has fallen in love with a much more expensive house that best meets his needs. A home for \$130,000 puts his ratios at **32/45**. **BOB'S LENDER SUGGESTS A BUYDOWN!**

Bob purchases the home at the list price of \$130,000 and the seller contributes 2.5% towards the buydown, closing costs, etc. (Seller nets \$126,750: a 97.5% sales price—well within reason) Let's look at Bob's house payments including taxes (\$250/month) and homeowner's insurance (\$50/month).

Year 1: 4% interest rate	Year 2: 5% interest rate	Year 3: 6% interest rate—LOCKS
\$920	\$998	\$1,079

Bob can now qualify for the home at 4%. Bob's new ratios are **27/40**. APPROVED!!



What types of homes can I build and finance with Rural Development?

There seems to a lot of confusion regarding the proper definitions of modular versus manufactured...so here is a quick guide!

Site Built:

- Built from the ground up, built entirely at the home site
- Conforms to all state, local, or regional codes where the home is located
- Often called a “stick built” home
- A well built, cared for site-built home generally increases in value over time (location plays a key role)

Modular:

- Built in modules at a factory
- Built to conform to all state, local, or regional building codes at their destinations
- Modules are transported to the home site on truck beds, then joined together by local contractors
- Local building inspectors check to make sure the structure meets the requirements and that finish work is done properly
- Modular homes are *sometimes* less expensive per square foot than site built homes
- A well-built modular home should have the same longevity as its site-built counterpart, increasing in value over time

Manufactured:

- Formerly referred to as mobile homes or trailers
- Built in a factory
- Conform to a Federal Building Code called HUD code, rather than to building codes at their destinations
- Homes are built on non-removable steel chassis
- Sections are transported to the home on their own wheels
- Multi-part units are joined at their destinations
- Segments are not always placed on a permanent foundation, but they must be on a permanent foundation to qualify for Rural Development financing
- Building inspectors check the work done locally (electric hook-ups, etc.) but are not required to approve the structure
- Manufactured housing is generally less expensive than site built and modular homes
- Manufactured homes often decrease in value over time



New Home Financing & Construction Docs.

- **Rural Development can guarantee construction-permanent loans.**
- **The guarantee is not issued until the home has been completed and the closing package (including 2% guarantee fee) has been received by Rural Development.**
- **Lenders may apply for a Conditional Commitment to guarantee a home once completed but that is currently under construction.**

STREAMLINED NEW CONSTRUCTION DOCUMENTATION: In the past the Guaranteed program required proof of multiple inspections: even for “spec” homes. Rural Development has introduced new guidelines which will make financing new construction properties much easier.

Documentation to be kept in Lender’s File:

“Spec” Homes

- RD Plan Certification
OR
Building Permit
(Many communities have zoning requirements
Which ensure the home is being built to acceptable
Local codes.)
- Occupancy Permit
OR
Final Inspection by code official or
licensed inspector

Pre-Sold Home

All documents listed for a “spec” home
plus the following:

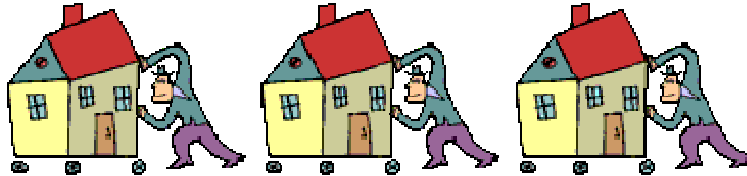
1. Construction Contract
2. AD 1048: Debarment Form: Signed
by the builder
3. 400 Series: Equal Opportunity Forms
400-1: EO Agreement
400-6: Compliance Statement
400-3: Notice to Applicants
4. Job site posters provided to builder by RD



NEW Manufactured Homes

- **Existing manufactured (HUD code) homes are NOT permitted unless already financed by Rural Development (GRH or Direct 502 loan).**
- **Underwriters (and appraisers) must determine whether the unit is a “manufactured” or a “modular” home. There are no restrictions on a modular home, even though they are built off site. Modular homes meet all the same Uniform Dwelling code (UDC) requirements as “stick built” homes.**
- **Existing homes that have the characteristics of a manufactured home must be underwritten carefully to verify that the home (or any part of the structure) is not a manufactured (HUD code) home.**
- **Some appraiser comments or characteristics to watch for include:**
 - 1. Mobile/manufactured home appearance**
 - 2. Presence of FMHCSS tag on the dwelling**
 - 3. Floor plan**
 - 4. Slab or pier foundation**
 - 5. Presence of skirting**
 - 6. Feature board walls**
 - 7. Metal structural components**
 - 8. Evidence of ownership is a title**
 - 9. Furnace and water heater is located on the main floor**
- **New manufactured homes must be purchased, installed and warranted from an agency approved Dealer—Contractor.**

- **A list of Dealer—Contractors approved for Arizona is available from our field offices in hard copy or electronically. Dealers not listed on our approved list should contact any RD Office for the application and requirements for becoming an approved Dealer—Contractor.**
- **Dealer—Contractors must use a single construction contract to include the purchase of the home, installation of the home on a permanent foundation, and any other site development work.**
- **No “do it yourself” work by the applicant is allowed.**
- **The Dealer—Contractor must provide a 12 month warranty on all work completed under the construction contract, including the work completed by their sub-contractors.**



- **The set up requirements for Rural Development are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the site.**
- 1. The home must be permanently installed on the site with all running gear and towing equipment removed.**
 - 2. All foundation types must have frost protected footings or perimeter.**
 - 3. Acceptable types of foundations for manufactured homes include anchor ties to footings, full basements, crawl spaces, and concrete slabs. All foundation footings or perimeters must be frost protected and enclosed with a permanent building material such as concrete, cement blocks, or treated wood.**



Modular Homes

Modular Homes are designed and constructed to meet all requirements of the International Residential Code, or other local code required for its destination, same as site-built construction. This is not the same development standard used for manufactured homes or “double-wides”, which meet a national safety and construction standard often referred to as HUD code. GRH loans on new modular homes are processed the same as stick-built homes.

Rural Development in Arizona does not require the second construction inspection (referred to as the “rough-in”) for modular homes since they are constructed and inspected while in the factory. These homes are typically delivered to the site with the interior walls enclosed.



Existing Homes

Rural Development wishes to ensure that clients are purchasing safe, sanitary, and sound homes free of major defects and repairs. Many clients do not have large savings accounts to pay for major repairs in the event the roof begins to leak, or the septic explodes. Rural Development offers flexible inspection requirements to determine property condition.

ATTENTION

RURAL DEVELOPMENT IS ONLY GOING TO REQUIRE RD SPECIFIC REPAIRS TO BE COMPLETED. HOMEBUYERS SHOULD NOT RELY ON RURAL DEVELOPMENT TO ENSURE COMPONENTS OF THE HOME OR STRUCTURAL SOUNDNESS BASED UPON RD'S LIMITED INSPECTION.

NEW APPRAISAL AND INSPECTION FORM UPDATE

In effect January 1, 2006



The HUD VC Sheet is obsolete!
DO NOT PANIC.....LITTLE HAS CHANGED!

HUD HANDBOOK 4150.2 HAS BEEN REVISED

December 19, 2005 Mortgagee Letter 2005-48

With the new Fannie Mae URAR 1004 required and the HUD VC Sheet now retired, FHA recently relaxed many of their inspection requirements for existing properties by updating HUD Handbook 4150.2.

REMEMBER, RURAL DEVELOPMENT INSPECTION REQUIREMENTS FOR GUARANTEED LOANS ARE NO MORE RESTRICTIVE THAN FHA. Please review these new changes and do not make any of these items a condition for repair on the conditional commitment. RD Instruction 1980-D, 1980.341(b) references HUD's requirements so RD's guidance is updated as well.

FHA and Rural Development no longer require repairs for minor cosmetic deficiencies; for example:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes constructed post-1978
- Minor plumbing leaks (such as leaky faucets)
- Defective floor finish or covering worn through the finish, or badly soiled
- Evidence of previous (non-active) Wood Destroying Insect/Organism damage where there is no evidence of unrepaired structural damage
- Rotten or worn out counter tops
- Damaged plaster, sheet rock, or other wall and ceiling materials in homes constructed post- 1978
- Poor workmanship
- Trip hazards (cracked or partially heaving sidewalks, poorly installed carpeting)
- Crawl space with debris and trash
- Lack of an all weather driveway surface

FHA and Rural Development inspection policies:

- **Wood destroying insects/organisms:** Purchase contracts typically require the seller in Arizona to provide this inspection and repair (1980-D has no additional termite requirements for existing dwellings).
- **Septic:** Both RD and FHA will require a third party test only if the appraiser or inspector orders it, or state/county/city regulations mandate it.
- **Flat or unobservable roof:** No longer required. Appraiser will note any possible problems from the interior of the property (evidence of leaks, waterspots, etc.)
- **Well:** Rural Development requires all private wells and individual water supplies to be tested per 1980.313(c) and 1980.341(c). FHA will only require this in some cases...this is one difference between RD and FHA.

- **Thermal:** Rural Development requires that dwellings meet thermal standards or grants a documented waiver request per 1980.313(f). Sill box and band beam insulation are not eligible for waivers.

Conditions that will continue to require automatic inspections include but are not limited to:

- Standing water against the foundation and/or excessively damp basements
- Hazardous materials on the site or within the improvements
- Faulty or defective mechanical systems (electrical, plumbing, or heating)
- Evidence of possible structural failure (e.g. settlement or bulging foundation wall)

Rural Development has **two options** for lenders submitting loan packages:

- **OPTION #1: FHA ROSTER APPRAISER:** If lenders order their appraisal from a FHA Roster appraiser an inspection will be completed at the time of the appraisal.

Log on: <https://entp.hud.gov/idapp/html/apprlook.cfm>

There are 50 FHA Roster appraisers in Arizona as of 03-06-2007

**** A FHA Roster appraiser may sign a 1004 completed by a non-roster appraiser and submit this to RD to meet requirements without obtaining a state licensed home inspection. ****

- **OPTION #2: CONVENTIONAL APPRAISAL AND STATE LICENSED HOME INSPECTION REPORT:** Order a full interior/exterior appraisal from any Arizona licensed appraiser AND submit an Arizona licensed home inspection report.
- **EXHIBIT G: Home Inspection Report.**
If the state licensed home inspection report is too large to submit, then the state licensed inspector may fill out the Arizona “Final Inspection” form in the Exhibits section of this handbook.
- **THERMAL CERTIFICATIONS ARE STILL REQUIRED ON NEW DWELLINGS.**
- Thermal waivers are available for all areas except sill box/band beam insulation. Contact your local RD office with utility bill summaries and other information if you are requesting a thermal waiver.
 - **If the appraiser calls for an additional inspection, such as for electrical, furnace, foundation, septic, or roof, that inspection must be obtained and be satisfactory. Again, a Home Inspection by a state licensed inspector can address many of these concerns if they arise.**



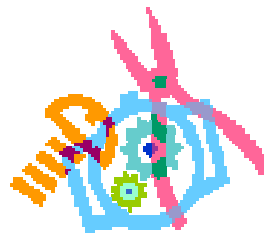
2. **Any repairs called for on the inspection(s) must be completed or proper escrow in place before Rural Development can issue a Loan Note Guarantee. However, the loan can be approved and the conditional commitment can be issued subject to the completion of the repairs.**

No other loan program will allow escrowed repairs, or repairs in general to be rolled into the cost of the loan. Rehabilitation products will, BUT the credit standards and money to close can become an issue. Rural Development IS NOT a rehabilitation loan, but RD will help finance basic necessities such as roof, windows, insulation, and other improvements that keep the home in excellent condition for the borrower.



Please Note:

It is the HOMEBUYER'S responsibility to be an informed buyer. Homebuyers have every right to carefully examine the systems and structure of their potential new home. A home inspection is a smart investment to protect against expensive repairs. If a homebuyer has obtained a state licensed home inspection report, Rural Development can review the report to determine if any repairs will be needed to meet RD minimum property standards. THE INSPECTION COMPLETED WITH THE URAR (1004) APPRAISAL WILL BE REVIEWED FOR RURAL DEVELOPMENT PROPERTY STANDARDS ONLY. Rural Development recognizes that the appraiser may note other noticeable deficiencies they observe however the lender should counsel the client that many of these observations may not be required to be corrected.



Repair Escrows

If major repairs are noted during an appraisal:

- **Septic system is deteriorated**
- **Smoking or dead furnace/AC**
- **Broken windows**
- **Siding needs replacement, or siding is needed**
- **Many other repairs may apply**

The lender may escrow 150% times the bid amount for materials and labor for these repairs and obtain Rural Development's Loan Note Guarantee promptly after closing.

- **The escrow agreement must be based on a signed contract and allow for completion of the work within 120 days of the work commencing.**
- **The home must meet decent, safe, and sanitary requirements at the time of closing.**

- **Rural Development will issue the Loan Note Guarantee to the lender prior to the completion of the required repairs IF a proper escrow account has been established.**
- **The escrow account may be funded with loan funds or from cash reserves from the borrower. Once work is completed any remaining money left in escrow funded with loan proceeds will go back onto the principle of the loan.**
- **IF THE CLIENT PUT THEIR OWN MONEY INTO THE ESCROW ACCOUNT THEY ARE ENTITLED TO THE REMAINING FUNDS NOT USED.**

IMPORTANT NOTICE: Rural Development will NEVER be the reason a loan cannot close. Rural Development will issue the loan note guarantee with an escrow for repairs, OR the lender may close the loan, finish the repairs, and then submit the final package for the loan note guarantee. So if the lender can wait a few days or a week to complete scheduled repairs, Rural Development will honor their commitment for a guarantee once the final inspection is completed!



Appraisal Issues

- **Lenders may use their own properly licensed or certified appraisers for completing appraisals on property financed with a GRH loan.**
- **FHA Roster appraisers are the only appraisers who may fill out the URAR and complete an inspection at the time of the appraisal OR a FHA Roster appraiser may SIGN OFF as a supervisory appraiser on a URAR completed by a non-roster appraiser.**
- **Any state licensed appraiser may conduct a full interior/exterior appraisal of the property.**
- **If the client is paying for a home inspection performed by an Arizona state licensed home inspector, you may submit this inspection in lieu of a full FHA appraisal, OR you can have the Arizona licensed inspector fill out the Arizona “Final Inspection” form in the Exhibits section of this handbook. The inspector should comment on the inspection items as well as checking the appropriate boxes.**

- **An appraisal is not required when refinancing the PRINCIPAL ONLY of an existing Rural Development GRH loan. It is required on all cases of refinancing a Direct 502 Loan. See the section titled, “Refinancing”.**
- **Appraisals should be done on an “as improved” basis to reflect the value of the property meeting Rural Development thermal standards and the HUD Handbooks 4150.2 and 4905.1 requirements in the event more insulation, or other repairs are needed.**
- **The appraisal must be less than six months old for home purchase transactions and less than one year old for refinance transactions.**
- **Appraisals on new homes (under 12 months old and not previously occupied) must include a detailed “cost approach” appraisal based on a nationally recognized cost handbook. Two common handbooks are the Marshall & Swift Residential Cost Handbook and the Boech Residential Cost Handbook.**
- **Appraisals must contain at least 3 comparable sales that are less than 1 year old. The gross and net appraisal adjustments must be conforming to conventional underwriting and USPAP guidelines.**

QUICK RD APPRAISAL GUIDE

The URAR: FNMA Form1004/ FHLMC Form 70

The revised form **must include a cost approach** and 3 comparable sales. The new revision excludes information on manufactured homes and condominiums.

The Manufactured Home Appraisal Report

FNMA Form 1004C/FHLMC Form 70B has been combined into one appraisal report for use only on NEW manufactured homes. Rural Development guarantees only NEW manufactured homes built by an approved dealer-contractor.

The Individual Condominium Unit Appraisal Report

FNMA Form 1073/FHLMC Form 465 has been revised; this property type is no longer indicated on the URAR. The revised form excludes exterior inspections. Appraisals with interior inspections for condominiums should be completed on this form. **Again, a cost approach is NOT optional.**

The Appraisal Update and/or Completion Report

FNMA Form 1004D/FHLMC Form 442 has been revised. It now includes sections for property information, the summary appraisal update, the certification of completion, and signatures. This form should also include photographs when applicable.

The following appraisal forms are NOT accepted by Rural Development for loan originations:

- **The Exterior-Only Inspection Individual Condominium Unit Appraisal Report (New FNMA Form 1075/FHLMC Form 466)**
- **The Exterior-Only Inspection Residential Appraisal Report (New FNMA Form 2055/FHLMC Form 2055)**
- **The Desktop Underwriter Quantitative Analysis Appraisal Report (Old FNMA Form 2055)**
- **Loan Prospector Quantitative Analysis Report (Old FHLMC Form 2055)**

Questions regarding appraisers and appraisal forms may be directed to your local Rural Development office.



Site and Building Requirements

Refer to the National Regulation RD Instruction 1980-D, paragraphs 1980.312-1980.314 for more information.

- **Maps are available at the RD field offices, or at the eligibility web site.**
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- **New Dwellings must meet Arizona Rural Development Thermal Standards.**
(Appraiser may approve)
- **Exceptions for in-ground swimming pools can be considered on a case by case basis by the National Office. Any value attributed to above ground pools will be deducted from the appraised value since they are viewed as personal property.**
- **Dwellings financed should be of a residential nature and not closely associated with farm service buildings or commercial/industrial property.**
(Underwriters typically expect reasonable zoning compliance. A good rule

of thumb is that homes lacking residential zoning should be bordered on three sides by residential types of property.)

- **Income producing structures (including side by side duplexes: buy both live in one half, rent out the other) or farm land **cannot be financed**. Other structures of a storage nature (with low contributory value) are allowed, besides the house and a garage, **subject to their value and the site's value being under 30% of the total value**.**
- **Non-income producing sites can be financed regardless of size as long as the contributory value of the site and other structures is less than 30% of the total value. **The 30% limitation may be exceeded if the site cannot be further subdivided for residential purposes based on its current zoning.****
- **Hobby farms and farmettes are not eligible for financing since they generally include income producing land structures.**
- **Property must be contiguous to and have direct access from a street, public road, or driveway. Streets and roads must be hard surfaced or an all weather surface (**i.e. not a single lane dirt road**). Shared driveways are permitted as long as the access to the property is transferable with the title to the property.**



Condominiums

- **Condominiums, Planned Unit Developments (PUD), or other dwellings served by a home owners association (HOA) may be accepted when the project has been approved or accepted by HUD, VA, FNMA, or FHLMC. *(The lender's underwriter is responsible for documenting the acceptability of the condo based on secondary market criteria. Unwarrantable condos cannot be accepted.)***

- **First Right of Refusals in Condominium Documents CAN BE OVERLOOKED IF there is no evidence of discrimination present in the purchase contract.**
- **Small residential condominiums that are not served by a home owners association (HOA) based on the condominiums documents, may be eligible for GRH financing. *(The lender's underwriter must determine the acceptability of the project's condo documents.)***



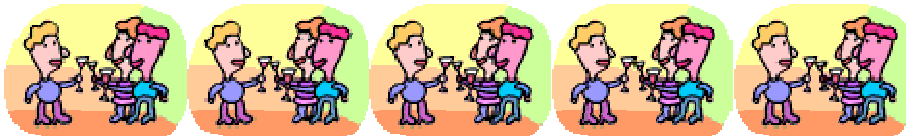
Well and Septic Inspections

- **A local Health Department, AZ Department of Public Health, or an Arizona Certified Lab, must test all private wells for adequacy and compliance with current state codes. Any observations of non-compliance must be noted on the report.**
- **Non-conforming wells and septic systems must be brought into compliance with current standards codes to ensure safe and sanitary dwellings.**
- **In almost all cases, basement wells are illegal and must be relocated outside of the dwelling's foundation. Pit wells and dug wells must be brought into compliance with current standards.**
- **Driven point wells may be eligible depending upon the well's location, type of installation, and capacity. Approximately 5 gallons per minute (GPM) is considered an adequate well capacity to supply a normal household.**
- **Shared wells located on the subject property are permissible as long as the existing shared well agreement contains no adverse clauses. A shared well that is not located on the subject property may be acceptable if a HUD Shared Well Water Agreement is signed by all parties and is properly recorded.**

- All private wells must be tested for bacteria, nitrates and any other contaminants known to cause health hazards in the area. The water tests must be considered “safe” based on EPA drinking water standards.
- Wells with unsafe levels of nitrates will require the installation of an individual water treatment system that has been approved by the State of Arizona. Lenders must verify that an acceptable water treatment system has been installed.
- **Hauled Water** – At this time hauled water is only allowed on an Indian Reservation, and must be approved by the National Office on a case by case basis. IHS must inspect the holding tank and delivery system at least every 6 months.
- If the FHA appraisal or state licensed home inspection comes back, and no adverse comments are made regarding the septic system, then **NO** additional third party inspection must be conducted.

IF EITHER OF THESE PROFESSIONALS ORDER AN ADDITIONAL SEPTIC INSPECTION LENDER’S MUST COMPLY.

- All types of state approved septic systems are eligible.
- The septic inspection report, if necessary, must clearly describe the type of system, the adequacy of the system relative to the dwelling’s size, compliance with current septic codes, and comment on any evidence of failure.
- Holding tanks will be accepted for new construction financing only if no other alternative is possible on the site.



Cheers to safe drinking water, and sanitary septic!



Environmental Issues

- **Lenders must submit FEMA Form 81-93, Standard Flood Hazard Determination, with each GRH Loan application. Lenders typically obtain a life of the loan certification from the provider of the determination.**
- **Flood Insurance is required anytime the foundation of any dwelling is located in Zone A (100 Year Flood Zone). With Flood Insurance in place, RD will Guarantee the loan. (The First floor elevation must be above the 100 year flood level. RD can only use the FEMA certified flood zones.) The lender must obtain a Flood Elevation Certificate – FEMA Form 81-31 that has been completed by an authorized source as listed by FEMA for completion of the form.**
- **Since Flood Insurance is typically more expensive than regular coverage the buyer may roll the cost of the first year premium into the loan note (as long as 102% Appraised Value is not exceeded.) This may help assist those buyers in Flood Zones.**
- **Property located in unmapped areas (Zone D) or in communities that do not participate in the National Flood Insurance Program (NFIP) will require further investigation by Rural Development to see if these areas are eligible for financing.**
- **More information about FEMA, including Letters of Map Revision (LOMR) and Letters of Map Amendment (LOMA) can be found at:**
www.fema.gov/mit/tsd
- **Properties with underground storage tanks (residential use) must be registered with the State of Arizona Safety and Buildings Division. Abandoned underground storage tanks must be removed from the site.**

- **Properties with asbestos on the interior of the dwelling (typically found on the heating ducts in older homes) must have the asbestos material encapsulated or removed by a qualified individual.**
- **Since homes build prior to 1978 may contain lead-based paints, lenders should ensure that their applicants have received a copy of Addendum S- Lead Based Paint Disclosures and Acknowledgements, as part of their Offer to Purchase. If not provided with the application, RD will condition for the Lender's certification that the applicant has received the LBP Disclosure.**



Homebuyer Education

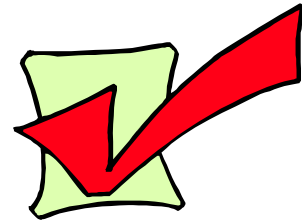
Lenders are encouraged, but not required, to offer Homebuyer Education to homebuyers.

Rural Development would encourage and support any program conducted by the lender that is approved by Fannie Mae, Freddie Mac, FHA, VA, or ADOH.

The National Foundation of Credit Counseling (NFCC) publishes the “Keys to Homeownership”, an excellent homebuyer education workbook. Copies can be purchased by contacting NFCC Housing Department at (301) 589-5600, ext. 20.

**A Housing Counselor's directory is available on the HUD website at:
www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm**

No cost homebuyer education is available on-line through the Nehemiah non-profit organization. Their website is: www.getdownpayment.com, Upon completion of the course, applicants will have to pass a test in order to receive their completion certificate.



Other Applicant Eligibility Criteria

- Refer to RD Instruction 1980-D, paragraph 1980.346 for more information.
- Applicants may rent out a current home in order to purchase a new home with guaranteed financing. **EVEN IF THE CURRENT HOME IS FINANCED WITH RURAL DEVELOPMENT.** (However, some restrictions apply. See p. 47).
- Applicants must personally occupy the dwelling as their primary residence.
- Applicants must be a U.S. Citizen, a U.S. non-citizen national or a “qualified alien”.

EXTRA: Administrative Notice: Eligibility of Non-US Citizens for Single Family Housing Guaranteed Loan Program Assistance

1. Applicants who indicate “No” to Item J in Part VIII of their application indicating that they are not a U.S. Citizen must provide documentation indicating their immigration status.
2. A (readable) copy of the front and back of INS Form I-551, Alien Registration Receipt Card (for permanent resident aliens) is the most common type of documentation obtained by lenders. Other types of acceptable documentation are described in the Administrative Notice.





Retaining an Existing Home as Rental Property

- **Generally borrowers must sell their existing home prior to closing. However, borrowers may retain property that does not meet their current needs, or is outside of the commuting area.**
- **Refer to RD Instruction 1980-D, paragraph 1980.347(d) (3) for more information regarding proper documentation.**
- **The client should present a lease agreement stating the monthly rent.**
- **The underwriter should calculate any income generated from the rental property to include this in the “adjusted” income qualifying calculation.**



Reasonable Costs and Fees

EXTRA: Administrative Notice: Lender charges and fees

- **Lenders may charge normal and customary fees for their services as long as their fees do not exceed the charges or fees routinely made by the lender for similar transactions such as Fannie, Freddie, ADOH, FHA or VA.**
- **Other conforming high LTV home mortgage products (excluding sub-prime) can also be used for comparison. This documentation is not routinely requested as part of the loan application process unless the**

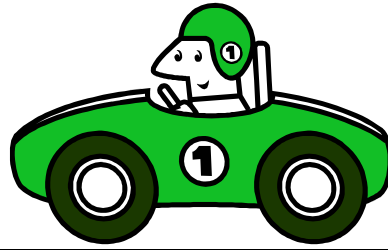
fees observed on the Good Faith Estimate appear to be unusually high for that market.

- The 2% Guarantee Fee **should not** be included when making the comparison.
- **Discount points may only be charged in cases where the interest rate is being bought down below the current FNMA rate.**
- **Discount points can only be financed with loan funds for low income applicants.**



Rural Development Turn Around Time

- Rural Development strives to respond within 24 – 48 hours of receiving a complete (underwritten) application.
- Lenders will be notified immediately if their application package is incomplete.
- While **RD is not underwriting the loan**, we must verify that certain applicant and property compliance issues have been met.
 1. Verification of credit waivers if necessary
 2. Double check household income for compliance
 3. Complete an appraisal review and environmental compliance review
 4. Verify thermal standards, if applicable
 5. Review ratio waiver documentation if necessary, etc.
- Depending on the availability of staff and the quality of your package, many files are reviewed and approved the same day they are received. If a request cannot be reviewed within 48 hours, the lender will be notified with the reason for the delay.

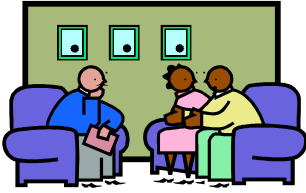


Getting Started

- **Educate your loan originators, processor, underwriters, and closing department.**
- **Arizona has 10 local offices located throughout the state. Our State Office is located in Phoenix.**
- **Lenders should request GRH training from their nearest Rural Development office or by contacting the State office. 602-280-8741**
- **Thoroughly review this manual.**
- **RD-Instruction 1980-D and the referenced Administrative Notices (ANs) are for further guidance. CALL RURAL DEVELOPMENT -- ASK QUESTIONS!**
- **This handbook and the referenced ANs are available from the Arizona State Office, in Phoenix.**
- **Review the GRH Loan Application Processing Checklist located in the GRH Forms section.**
- **Review the “Processing Guide” on page 59 to understand the typical “file flow”.**



Help Make Homeownership Wishes.....Reality!



Credit Counseling

- **Arizona Rural Development WILL allow clients currently enrolled in credit counseling to be eligible for a loan through the Guaranteed program.**
- **Credit Counseling demonstrates a borrower's initiative in resolving their debts in a responsible manner.**
- **Rural Development would prefer the borrower have been enrolled and making timely payments for a minimum of 6 months. Canceled checks, or a print out from the Debt Counseling Agency will be sufficient evidence of timely payments.**
- **If the borrower has been in counseling for less than 6 months **STRONG** compensating factors must be present. (See "Repayment Ratios" for a list of compensating factors that are most commonly used.)**
- **Enrollment in credit counseling also satisfies requirements for collections a borrower may have that need "satisfactory payment arrangements". If it is a **medical collection**, most insurance companies or physician offices will assist in payment arrangements as well.**



Reservation of Funds

The originating lender or broker may submit a "Reservation of Funds" form 1980-86, after the applicant has an accepted Offer to Purchase. This process assures all parties that the GRH funding is available prior to processing and underwriting the file. The availability of funds is generally good throughout the year. During

the months of September or October, Conditional Commitments may be issued subject to the approval of new fiscal year budget or continuing resolution for our Agency. At this time, a reservation of funds is not required.

On the website:

Under “Lenders”—Click “Forms”—Click on “Reservation of Funds”—Print

- 1. Fax the completed [Form RD 1980-86](#), Reservation of Funds, to the Rural Development office serving the county where the property is located.**
- 2. Rural Development will fax a “Confirmation of Funds” to the originator usually within the same day. The GRH funds remain in a “reserved” status, pending the receipt of a complete file from the lender’s underwriter. All “Confirmation of Funds” will expire in 60 days or on September 30th each year, whichever comes first.**



Submitting the Loan

Arizona Rural Development offers a dual delivery system to its GRH lenders through its State Office and 5 full time Local Offices. Lenders may always submit their files to the State Office, but are encouraged to build a partnership with their local office for questions, and loan approval. A list of the current GRH Loan processing offices is available upon request.

- RD may issue Conditional Commitments to seller/servicer lenders who retain the servicing of the GRH loans they originate and prefer a decentralized method of program delivery.**
- RD may also issue Conditional Commitments to participating lenders or investors who underwrite GRH loans on behalf of loan originators or mortgage brokers. [Form RD 1980-21](#) (Rev. 6-06 is the current version of this form) should be used as a cover sheet to their investor’s underwriter so that they know which RD office you prefer reviewing your file. A copy of both the lender’s and Applicant’s signatures are now acceptable on this form.**

- Participating lenders and loan originators should select the type of delivery system, centralized or decentralized, that works best for their business. Loan originators should consult their underwriting department or their investor for guidance on this issue.
- **RURAL DEVELOPMENT SHOULD ONLY RECEIVE COMPLETE FILES UNDERWRITTEN BY A PARTICIPATING LENDER.** **An E-copy of the appraisal is preferred by our office.**
- **LENDERS SHOULD NOT SUBMIT ONE PACKAGE TO RD AND ONE TO THEIR UNDERWRITER SIMULTANEOUSLY.** Due to limited assets, documentation greater than 20 pages should be mailed or e-mailed to RD. E-mail submissions should not exceed 4mb per submission. Larger items should be broken down into smaller packages to avoid rejection by the USDA server.

Changing the Loan Amount or Interest Rate



Once Form RD 1980-18, Conditional Commitment for SFH Loan Guarantees, has been issued to a lender, no increases to the loan amount or interest rate are permitted without prior written concurrence from Rural Development. RD will usually approve such changes. A revised 1003, 1008, and 1980-21, p.1 will need to be submitted.

Lenders must NOT close a loan at an interest rate or dollar amount higher than indicated on the Conditional Commitment without RD's knowledge!!

Decreases in the loan amount or interest rate DO NOT require Rural Development concurrence. Do not adjust the GRH fee without requesting an update from RD.

An eligible increase in the loan amount can be approved.

- The lender must submit a revised Form 1008, and Form 1980-21 indicating the proposed use of the loan funds.
- If the new repayment ratios exceed the 29/41 guidelines, the lender must request a ratio waiver as described in the “Repayment Ratios” section.
- A revised Conditional Commitment will be issued to reflect the increased loan amount, if approved by Rural Development.
- **Oral concurrence** may also be available from Rural Development to expedite the process.



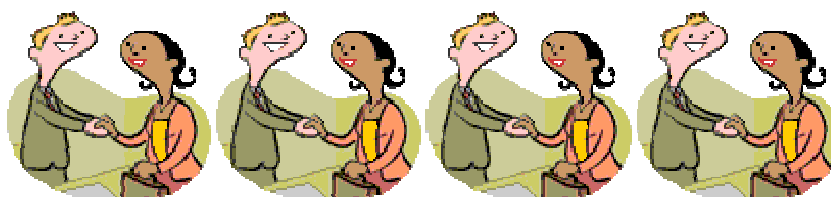
Do NOT close the loan until both your Underwriter's and Rural Development's conditions have been satisfied.



Loan Closing

- If requested, Rural Development will review your documentation prior to closing to verify that you have satisfied the conditions listed on the Conditional Commitment.
- Make certain that the loan amount and interest rate matches (or is less than) the amount and rate shown on the Conditional Commitment.
- Make sure the Guarantee Fee is 2% of the FINAL loan amount for purchase transactions or .50% for refinance transactions.
- Submit the closing package and guarantee fee to the Rural Development office that issued the Conditional Commitment.

- Upon receiving **Form RD 1980-17, “Loan Note Guarantee”** from Rural Development, attach it to the original promissory note as evidence of the guarantee.



Loan Note Guarantee Coverage

Rural Development’s guarantee provides lenders with better protection than most types of mortgage insurance at a lower cost to the applicant. Because of the high quality of our guarantee, GRH loans are saleable on the secondary market, resulting in good value for both lenders and homebuyers.

- Lenders are protected 100% on the first 35% of the Original Loan Amount. Any loss in excess of the first 35% is covered by an 85% guarantee.
- The following briefly explains the loss claim process:
 1. Add all unpaid accrued interest, principal, foreclosure costs, all REO costs, interest from foreclosure date to REO sale (maximum of 6 months), and all REO sales expense to determine gross investment. Subtract gross REO sale price from gross investment to determine the loss.
 2. Multiply the original loan by 35%
 3. Rural Development pays ***the lesser of*** all loss determined in Step 1 or 35% of the Original Loan
 4. RD pays 85% of any loss remaining unpaid from Step 3.

The maximum loss payable is 90% of the original principal borrowed.

Contact the Arizona State office if you have any questions on the GRH loan program. Phone: 602-280-8755 | Fax: 602-280-8879



Replacement Forms

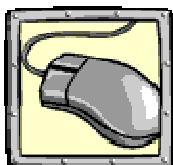
Official Agency forms can be downloaded from the following website:

<http://www.rurdev.usda.gov/regs/formstoc.html>



GRH Web Resources

- **Updates to this handbook, and most National ANs are available from the Arizona State Office in Phoenix.**
- **The National Regulation for GRH loan program is RD Instruction 1980-D. The income limits are an attachment to that regulation referred to as Exhibit C. The 1980-D regulation is particularly useful for answering questions regarding income and adjustments to income.**
- **Other regulations that cover parts of the program are RD Instruction 1922-C (Appraisal of Single Family Residential Property), RD-Instruction 1924-A (construction issues), RD 1940-G (environmental), RD 426-2 (flood insurance, construction in flood zones).**
- **The National Rural Development regulations referenced above can be downloaded from the website:**
http://www.rurdev.usda.gov/regs/regs_toc.html.
- **Current Administrative Notices (ANs) referenced in this handbook can also be found at: http://www.rurdev.usda.gov/regs/regs_toc.html.**



Rural Development Home Pages

- **The USDA- Rural Development national home page is located at:**
http://www.rurdev.usda.gov/recd_map.html . Look for the Single Family Housing Programs. There is a map where you can click on a State to find out more information about that State's programs. This is useful for finding GRH contacts in other states.

This site will allow you to enter a property address to determine if the location is eligible for Rural Development assistance.

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Property Eligibility:

- On the left under “Hot Items” click on “Income/Property Eligibility”
- At the Left on the menu, under “Property Eligibility” click on “Single Family”
- Click “Accept” to move forward to the property site
- Have your complete address including zip code: Type into proper fields, click “Retrieve Map” and your address will be mapped to its exact location AND determine if it is eligible or ineligible.
- IF YOU HAVE NO ADDRESS: Click on the State of Arizona on the US Map, to the Right there will be a list of counties that contain INELIGIBLE areas. If you do not see your county listed, GOOD NEWS—that entire county is eligible.
- If the county in question IS on the list to the right, click on the county name and a map of the INELIGIBLE areas should appear in dark orange background. Any areas in light tan are eligible.

Arizona HAS 15 COUNTIES:

15 counties are eligible

7 counties are 100% eligible

Apache, Gila, Graham, Greenlee, La Paz, Navajo and Santa Cruz counties are 100% eligible
Casa Grande is still Eligible in Pinal County

- **For Information about the Arizona Guaranteed Rural Housing Program**
Call 602-280-8760 or 602-280-8709.



Other Useful Sites

The following websites may be useful to you when looking for information on the GRH loan program and other homeownership related issues.

www.rurdev.usda.gov : USDA Rural Development National Office website. Agency information and USDA e-forms are available here.

<http://www.rurdev.usda.gov/az/> : Arizona Rural Development website. Local Office locations and RD program information are available here.

www.hud.gov/groups/lenders.cfm : HUD information for lenders on various home financing topics, including required disclosures. This site provides access to the HUD reading room where you can obtain handbooks, mortgagee letters, and forms. A link is also available to search for FHA approved condominiums.

<http://www.hud.gov/offices/hsg/sfh/lender/lenders.cfm> : This site provides a list of FHA appraisers who may be qualified to certify a property's compliance with HUD Handbooks 4150.2 and 4905.1.

<http://www.virtualfsbo.com/arizona.asp> : This site provides a real estate directory for homes available for sale by owner in Arizona.

www.realtor.com : This site provides a real estate directory for homes available for sale in Arizona as well as Realtor links. This website is also great for market research.

<http://www.homeloans.va.gov/> : This site contains lender and applicant information for the Federal VA Home Loan program. This site also contains a list of Federal VA approved condominiums.

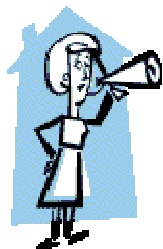
www.fema.gov : Information on the National Flood Insurance Program (NFIP) and FEMA Form 81-93, Standard Flood Hazard Determination, can be found here.

www.getdownpayment.com : On line homebuyer education program offered through the Nehemiah non-profit organization.

www.efanniemae.com : This site provides access to the current FNMA rate used by the GRH loan program. The single family originating and underwriting link will provide access to a list of FNMA accepted condominiums.

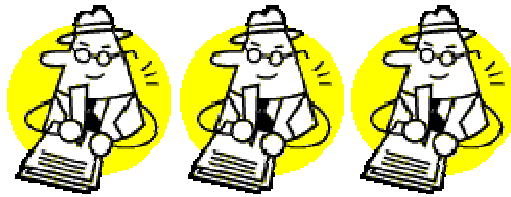
<http://www.housingaz.com/> : This site contains information by the Arizona Department of Housing on a variety of housing programs.

DISCLAIMER: The material is mostly in bulleted format. It does not contain the full context of the Agency regulations. This is intended to be a brief overview that incorporates the essence of the Agency's national regulation and Arizona specific requirements. Because it is Arizona specific, it may not be suitable for use in other states. The information contained herein should provide adequate information for the processing of the majority of your GRH loans. Underwriters should consult with the agency Guaranteed Housing Specialists, or your local Rural Development Managers for guidance in unusual cases.



Rural Development Loans and YOU!

Something to CHEER about!



GRH PROCESSING GUIDE

- i. **Complete Form 1003, and Form 1980-21 with the applicant at the time of application. Get **Original signatures and dates** at that time.**
- ii. **Fax the Reservation of Funds to the appropriate Rural Development Office (**only if notified by RD that reservations are needed to hold funding**).**
- iii. **Complete your loan origination package: Submit to your underwriter.**
- iv. **Rural Development will return a “Confirmation of Funds” for the requested amount (**if needed**). The funds are set aside for up to 14 days while you process the loan through underwriting and RD’s loan approval. Upon approval of the loan RD will issue the Conditional Commitment to the lender listing any loan approval conditions. The Conditional Commitment provides you a 90-day window to close the loan and submit your closing package with the Guarantee Fee to Rural Development. A 90-day extension may be requested by the lender, if needed.**
- v. **If your underwriter or investor approves the loan, they will send RD a complete package with the underwriter’s approval and supporting documentation. **DO NOT submit your loan packages simultaneously to your underwriter AND Rural Development.****
- vi. **Rural Development will review the underwritten application package and issue a Conditional Commitment within 24-48 hours of receiving a complete package, indicating any approval conditions directly to the underwriter. Typically, a copy is faxed to the submitting lender.**
- vii. **The underwriting lender will inform the originating office and closing department of the loan conditions set by both the underwriter and Rural Development.**
- viii. **The closing lender closes the loan if all underwriter and Rural Development conditions have been met.**
- ix. **The underwriting/closing lender submits a closing package to Rural Development to obtain the Loan Note Guarantee. Refer to the “Loan Closing” section for more information.**

- x. **Rural Development issues the Loan Note Guarantee to the approved underwriting/closing lender.**
- xi. **The Loan Note Guarantee must be attached to the original promissory note as proof of guarantee in the event of a loss.**



Rural Development and YOU!
Helping MORE buyers achieve the dream of
homeownership!



Please Note: The following attachments change frequently. Please check with your local RD Field Office for updates if the date of the attachment is greater than 6 months.

GUARANTEED HOUSING PROGRAM INCOME LIMITS

STATE: ARIZONA

A J U S T E D I N C O M E L I M I T S

P R O G R A M	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON*
Flagstaff, AZ MSA								
LOW INCOME	33050	37750	42500	47200	51000	54750	58550	62300
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Lake Havasu City-Kingman, AZ MSA								
LOW INCOME	33100	37850	42550	47300	51100	54850	58650	62450
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Phoenix-Mesa-Scottsdale, AZ MSA								
LOW INCOME	35950	41100	46200	51350	55450	59550	63650	67800
MOD.INC-GUAR.LOAN	51650	59050	66400	73800	79700	85600	91500	97400
Prescott, AZ MSA								
LOW INCOME	28300	32300	36350	40400	43650	46850	50100	53350
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Tucson, AZ MSA								
LOW INCOME	30800	35200	39600	44000	47500	51050	54550	58100
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Yuma, AZ MSA								
LOW INCOME	24250	27700	31200	34650	37400	40200	42950	45750
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Apache County, AZ								
LOW INCOME	23700	27100	30450	33850	36550	39250	41950	44700
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Cochise County, AZ								
LOW INCOME	26950	30800	34650	38500	41600	44650	47750	50800
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Gila County, AZ								
LOW INCOME	25600	29250	32900	36550	39450	42400	45300	48250
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Graham County, AZ								
LOW INCOME	24300	27750	31250	34700	37500	40250	43050	45800
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Greenlee County, AZ								
LOW INCOME	30350	34700	39000	43350	46800	50300	53750	57200
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
La Paz County, AZ								
LOW INCOME	23700	27100	30450	33850	36550	39250	41950	44700
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Navajo County, AZ								
LOW INCOME	23750	27100	30500	33900	36600	39300	42050	44750
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400
Santa Cruz County, AZ								
LOW INCOME	24650	28150	31700	35200	38000	40850	43650	46450
MOD.INC-GUAR.LOAN	49550	56600	63700	70750	76400	82050	87750	93400

* ADD 8% OF 4 PERSON LIMIT FOR EACH PERSON IN EXCESS OF 8 PERSONS

** MODERATE INCOME IS DEFINED AS THE GREATER OF 115% OF THE U.S. MEDIAN FAMILY INCOME OR 115% OF THE AVG. OF THE STATE-WIDE AND STATE NON-METRO MEDIAN FAMILY INCOMES OR 115/80THS OF THE AREA LOW-INCOME LIMIT



Final Inspection Form

Rural Development Guaranteed Loan Program

Property Address: _____

The following items have been checked as part of the inspection requirements of the USDA Rural Development Guaranteed Loan Program.

ITEM	YES	NO	N/A
Minimum Ceiling Insulation of (R-30) or (R-38 - Option II) (Circle One)			
House on blocks or pier & beam with perimeter insulation or a minimum floor insulation of R-11			
Window Insulation U-value of 0.69. Solar Screens/double pane glass/storm windows (circle one) have been used as window insulation. This method conforms with the requirements of the current edition of the RD Texas AN on Thermal Performance.			
Plumbing fixtures are in working order			
Heating/Cooling systems are in working order			
Built in appliances are in working order			
Electrical Systems are in working order			
Roof without visible defects & a remaining life of at least 2 years			
The unit is free from health or safety problems			

CERTIFICATIONS: Mechanical, electrical, plumbing and insulation meet code requirements. The unit is cost effective including utility and maintenance for this area (1980.313 (g)). The dwelling meets the requirements of HUD Handbook 4905.1 and HUD Handbook 4150.1 (1980.341 (1) (I)).

If applicable, the **private water/septic system** has been inspected by a qualified inspector and/or Health Department and found to be functioning and in compliance.

COMMENTS/REQUIRED REPAIRS

Inspectors Name _____ License # _____ Date _____

CONCURRENCE

I have reviewed the above report and concur with the inspector's assessment

Lender's Authorized Signature _____ Date _____

Note: This Form is Not required by RD Ins. 1980-D, but will satisfy some of the requirements for RD Ins. 1980-D in regards to the required inspections.

USDA RURAL DEVELOPMENT SECTION 502 GUARANTEE LOAN PROGRAM PROCESSING LOCATION AND CONTACT INFORMATION

<i>County</i>	<i>Office Name and Address</i>	<i>Contact</i>	<i>Email and Phone</i>	<i>Office Fax</i>
Apache, Coconino, Gila, Mohave, Navajo, and Yavapai,	USDA Rural Development 8841 E. Florentine, Suite A., Prescott Valley, AZ 86314	Donna Hastings and/or Ken Lynch	Donna.hastings@az.usda.gov Kenneth.lynch@az.usda.gov Donna: 928-759-9301, Ext. 105 Ken: 928-759-9301, Ext 112	928-759-9284
Maricopa and Pinal	USDA Rural Development 201 N. First Ave Suite 206, Phoenix, AZ 85003-1706	Mary Meyer	Mary.meyer@az.usda.gov Mary: 602-285-6375	602-285-6379
Lapaz and Yuma	USDA Rural Development 2197 S. 4 th Ave., Suite 104, Yuma, AZ 85364	Maria Urias and/or Brad Dierdorf	Maria.urias@az.usda.gov Brad.dierdorf@az.usda.gov Maria: 928-782-0860, Ext. 109 Brad: 928-782-0860, Ext 102	928-782-0951
Graham, Greenlee, and Cochise	USDA Rural Development 658 N Bisbee Ave., Willcox, AZ 85643	Bob Jones and/or Sergio Garcia	Bob.jones@az.usda.gov Sergio.garcia@az.usda.gov Bob: 520-384-3529, Ext 111 Sergio: 520-384-3529, Ext 115	520-384-5207
Pima and Santa Cruz	USDA Rural Development 1131 W La Canada Suite 203 Green Valley, AZ 85614	Shirley Colbert and/or Gerri Robinson	Shirley.colbert4@az.usda.gov Gerri.robinson@az.usda.gov Shirley: 520-648-1769, Ext 112 Gerri: 520-648-1769, Ext 114	520-648-0335

